

**PENNANT-
PUMA
OILS LTD.**

*Annual Report
1975*



PENNANT-PUMA OILS LTD.

1130 Elveden House, 717 - 7th Avenue S.W.
Calgary, Alberta T2P 0Z3 Phone: 264-7264

THE COMPANY

Pennant-Puma Oils Ltd. is a public Alberta Corporation formed on June 22, 1973 by amalgamation of Pennant Oils Ltd. and Puma Petroleums Ltd. At December 31, 1975 the Company held interests in 362 oil and gas wells situated in 43 producing areas of Alberta and Saskatchewan. The main thrust of its exploratory and development effort is in the gas prone areas of Alberta. It is managed by Canadians and has a staff of eleven. Approximately 50% of the Company's shares are held by Canadian residents.

1975 HIGHLIGHTS

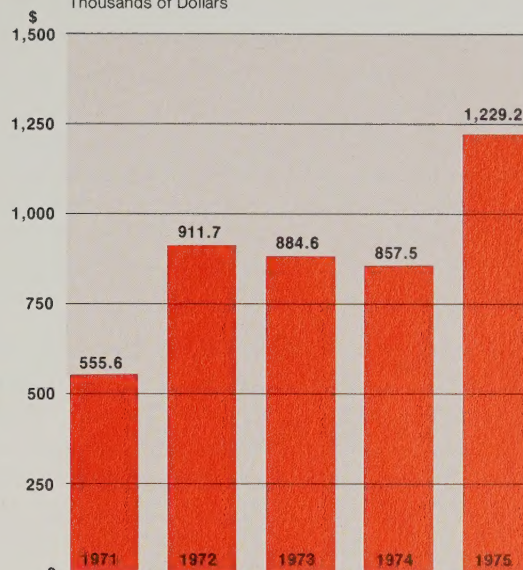
Revenues increased by 43%.
Record Earnings of 10c/share.
Record Cash Flow of 33c/share.
Produced 373 BOPD and 4595 Mcf/D.
Reserves: 1,168,700 Bbls. Oil
 402,800 Bbls. N.G.L.
 56,034,000 Mcf Gas.
Net Landholdings at 446,621 acres.

ANNUAL MEETING

The Annual Meeting of Shareholders will be held at 9:30 A.M., Local Time, on Friday, May 28, 1976 in the Angus Room, Calgary Convention Centre, Calgary, Alberta, Canada.

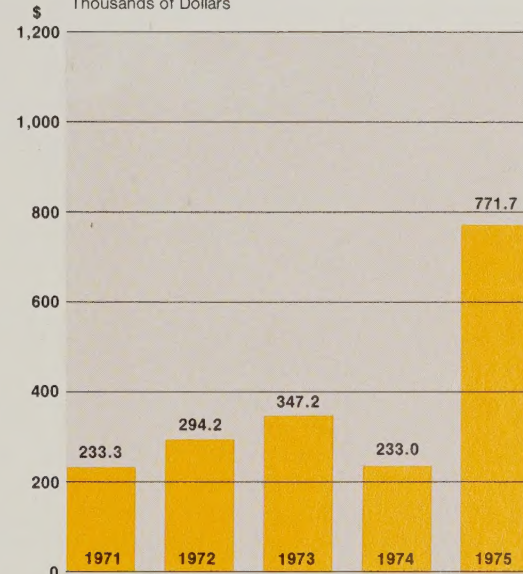
GROSS REVENUE

Thousands of Dollars



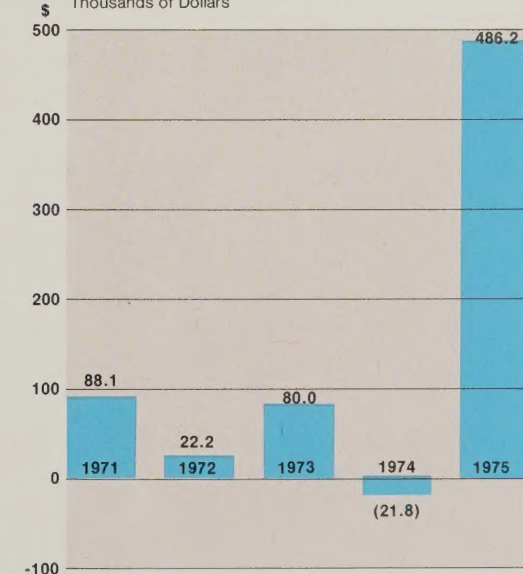
CASH FLOW

Thousands of Dollars



NET EARNINGS (before Income Taxes)

Thousands of Dollars



TO THE SHAREHOLDERS:

Your Board of Directors is pleased to report that the Company achieved record earnings and a much improved financial position during 1975. In addition, exploratory and development activities, which were of necessity curtailed early in the year because of legislative uncertainties, had returned to satisfactory levels by year end. The outlook for 1976 and subsequent years is one of continued improvement and growth by the Company.

Net earnings after allowing for deferred income tax were \$230,663 (10c/share) in 1975 compared to the \$8,462 loss recorded in 1974. Cash flow from operations was \$771,677 (33c/share) versus \$232,997 realized in the previous year. Working capital increased to \$510,220 from \$93,070 over the year, while long term debt was moderately reduced to \$131,803. Meanwhile, additions to fixed assets, expenditure made to generate future revenues, amounted to \$688,249, comparable to the expenditure of \$617,593 in 1974.

Gross revenues rose to \$1,229,171 in 1975, a 43% increase over the 1974 receipts, primarily as a result of higher wellhead prices in Alberta gas fields and reduced royalties on Saskatchewan oil. The anticipated expansion of gas sales volume, however, failed to materialize because of delays in both development drilling and facility construction. The increasingly long delay in the establishment of market outlets for shut-in gas well capacity has become a matter of great concern. Much of the delay results from expanding regulatory procedures that are now required. It is hoped that steps will soon be taken by the Provincial government to reverse this disturbing trend. At year end, 67% of the Company's proven reserves were attributed to properties not yet on production.

Further gains in oil and gas production revenues should occur in 1976 from higher wellhead prices and commencement of production from several Alberta gas projects. Western Canadian oil prices were increased to the \$8.00/bbl level on July 1, 1975 and Alberta gas prices to about 95c/Mcf on November 1, 1975. Upwards adjustments in both are anticipated, possibly as early as July 1, 1976. Also, the Saskatchewan government is expected to implement a new gas pricing policy to enhance the economics of gas production in that Province, where about one-third of the Company's gas production is located.

With an increase in its drilling activity over the latter part of the year, the Company was able to participate in twenty exploratory and development tests during 1975. This resulted in two exploratory and eight development gas well completions. The tempo of activity carried over into the new year with interests having been held in eleven wells drilled in the first quarter of 1976.

The Company continued to acquire unproven oil and gas lands in those areas of Alberta felt to have potential for future oil and gas development. This program which resulted in the build-up of a land portfolio comprising 1,170,922 acres (net 373,369 acres) at

year end, has yielded positive results. Several of the Company's gas development projects are located on lands acquired in this manner. With the recent sharp rise in land values and related increase in Industry exploratory activity, these properties have become an increasingly important asset of the Company, providing a sound basis for its future growth.

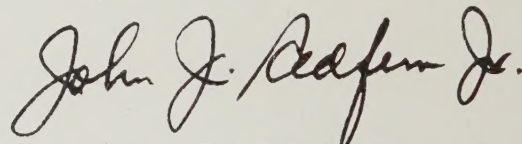
The Company's shareholdings of Berry-Wiggins & Co. Limited, a British drilling contracting and service and supply company, were sold at a loss of \$70,565. Originally, the Company invested in shares of Sea Search Limited, a private company formed to own and explore certain North Sea properties. The Berry-Wiggins holdings resulted from a successful take-over bid for Sea Search. The completely different objective of Berry-Wiggins, coupled with the now less favourable exploratory economics and general economy of the United Kingdom, prompted the decision to dispose of this asset.

The Foreign Investment Review Act has proven to be a major obstacle to the Company's program of purchasing producing oil and gas properties. Due to the uncertainties and delay occasioned by the need for Review Board approval, sellers are reluctant to deal with the Company. Hopefully, the upcoming review of the Act by the Federal government will result in changes which will enable the Company, which is approximately 50% owned by Canadians, to participate effectively in this important phase of Industry activity.

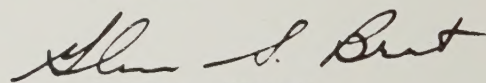
During 1975, Federal and Provincial governments responded favourably to Industry's request for a greater share of the wellhead value of production by altering their tax and royalty legislation. In addition, meaningful exploratory and development incentive programs were introduced which have reversed the downward trend in drilling activity. While some areas of concern remain, the outlook is for a continually improving economic investment climate. Of primary importance now is the development of long term stability in the system which is a prerequisite for the maximum efficient development of Canada's petroleum resources.

The Company employees are both thanked and congratulated for their important contribution to the Company's improved performance in 1975. In the past year, a new program was introduced providing for employee long term disability income protection and life insurance coverage in recognition of their valuable service to the Company.

Respectfully submitted on behalf of your Board of Directors.



JOHN J. REDFERN, JR.
Chairman



GLENN S. BRANT
President & General Manager

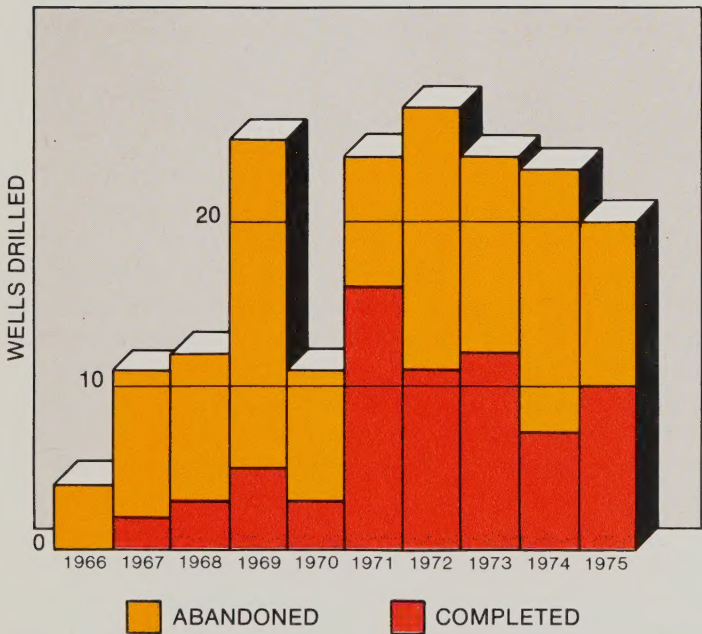
EXPLORATION AND DEVELOPMENT

Drilling in 1975 was down slightly from the previous year, due to loss of momentum during the political uncertainties of 1974 and the early part of 1975. It was only towards the end of the year that activity returned to a satisfactory level.

The results of the year's drilling are shown below:

Working Interest Wells	Gas	Oil	Dry	Total
Exploratory	2	0	7	9
Development	8	0	3	11
Royalty Interest Wells				
Exploratory	0	0	1	1
Development	1	0	0	1
	11	0	11	22
	=	=	=	=

The history of drilling by the Company and its predecessors since 1966 is presented below.



During the first three months of 1976 the Company participated in eleven wells resulting in six gas completions and five abandonments.

NORTHWEST ALBERTA



The most interesting recent exploratory innovation in Alberta has been the shallow gas play in the Lower Cretaceous Bluesky and Gething Sands in the northwest corner of the Province. This was of special significance to your Company because of its extensive landholdings in that area, all of which were acquired at prices far below those now prevailing.

The map on the centre pages shows these lands in relation to the overall area in which this shallow gas exploration is being conducted. Red stars indicate wells which had been reported as being Lower Cretaceous gas wells as of March 31, 1976. Very little information has been released, and it is probable that some of these wells will subsequently be classed as non-commercial.

Prior to the recent rise in gas prices, the shallow gas sands of this area could not be commercially produced, and were usually ignored. For this reason, wells drilled and abandoned prior to 1973 do not necessarily condemn the shallow gas prospects, and such wells have been omitted from the map. Several of these older wells have been re-entered by companies active in the area, and have been found to be gas bearing.

The most interesting of the Company's lands in the area are as follows:

Kidney Pond (Parma)

The Company owned varying interest, totalling 7,616 net acres, in a 27,520 acre P&NG reservation. Early in 1976 a well was drilled, at no cost to the Company, and was completed as a Bluesky gas well.

More drilling in future winters will be necessary to evaluate this find. The Company has granted options which could result in as many as five additional wells being drilled on the lands before any costs accrue to the Company. If all these options are exercised, the Company's interest will reduce to 17.5% working interest in the whole block, or 4,816 net acres.

Paddle Prairie

The Company owns 35% of a 59,520 acre P&NG reservation, and 100% of two 640 acre leases (22,112 net acres).

During the 1975/76 winter drilling season, two old abandoned wells were re-entered and tested in the Bluesky. Neither was capable of commercial production, and both have been re-abandoned. In view of the Company's widespread holdings and the very high prices paid for adjacent land at recent sales, this area still has importance to the Company's exploration program.

Negus Creek

The Company owned 35% of a 29,331 acre P&NG reservation. Two wells have been drilled at no cost to the Company, the first a dry hole in early 1975 and the second an uneconomic gas well in March, 1976. The Company's present net interest in this reservation is 7,390 acres.

With the exception of Haig River and Lutose Creek, on each of which the Company holds a small overriding royalty, the Company has a 35% working interest in all other lands shown. Company landholdings in the map area total 183,850 net acres, representing one of the Company's most significant assets.

EAST CENTRAL ALBERTA



The region displayed on the map on Page 6 continues to be the Company's primary area of development. The map shows the Company's lands and wells in relation to gas producing fields. The status of the various active projects in this region is discussed below:

Charron

Two significant successful Grosmont gas pool extension tests were completed, one in late 1975 and the second in early 1976. A gas sales contract has been negotiated and the necessary surface facilities are under construction to meet a July 1, 1976 commencement date target. The Company's interest in the various leases on this project averages about 15.5%.

Chump Lake

A Basal Cretaceous gas discovery well was drilled in 1975 on lands acquired by farmout. Subsequently, an offsetting 17,920 acre P&NG reservation was purchased on which further exploratory activity is planned in 1976. The Company retains a 17.5% interest in the farmout lands and 35% in the reservation.

Lucky Lake

An unsuccessful development well was drilled in late 1975 followed up by a successful multi-zone com-

pletion in early 1976. Plans are being made for the construction of facilities late this year with production to start near year end. Company interest here is 17.5%.

Pleasant Gas Field

This project was acquired in 1973 under the Company's Joint Acquisition Program. Gas gathering system and plant facilities were constructed to meet the sales target date of November 1, 1975. Unfortunately, gas transmission facilities construction has been delayed and it now appears that gas sales will commence sometime this summer. The gas sales contract provides for deliveries of up to 7½ MMcf/D from the field. The Company's initial share of production will be 5% increasing to 12.5% after payout which is expected to take place in early 1978.

Venice

One unsuccessful exploratory well was drilled on this project in 1975. Additional pool extension drilling is being considered for this year. Field gathering, plant and transmission facilities were constructed over the year end and gas sales at 5 MMcf/D commenced in March, 1976. The Company holds a 20.125% interest in this project.

OTHER AREAS

The Company's operations are widespread with active exploratory and development projects held in other regions of Alberta not illustrated by the aforementioned maps. Properties with significant activity to the Company are discussed briefly below.



Peco

The Peco project, which is illustrated by the adjacent map, is one of the Company's most significant assets. Production in the Peco North field is encountered at the 10,100 foot level from an abnormally high pressure sand reservoir. As shown, seven gas wells have been drilled by another operator in the vicinity of Company acreage. One well, situated in Lsd. 6-21-48-16 W5 and diagonally offsetting the Company's wholly owned Section 27-48-16 W5, has been on pilot production test since March, 1974. By year end, this well had produced 1,941 MMcf, having averaged 3,767 Mcf/D during the last quarter. Drilling on this property has been deferred pending possible joint participation with other companies. However, plans are now being made to commence the drilling of a wholly owned well later this year.



Comrey

Development drilling in this gas producing area has been deferred pending resolution of its gas marketing problem. Unless the National Energy Board allows the continued export of gas to the United States from this area, the only existing market, a major shut down will result. Resumption of production may then be a year or more away as new pipelines will have to be built. The Company holds interests in one producing and two shut-in gas wells on this project.



Hawkins

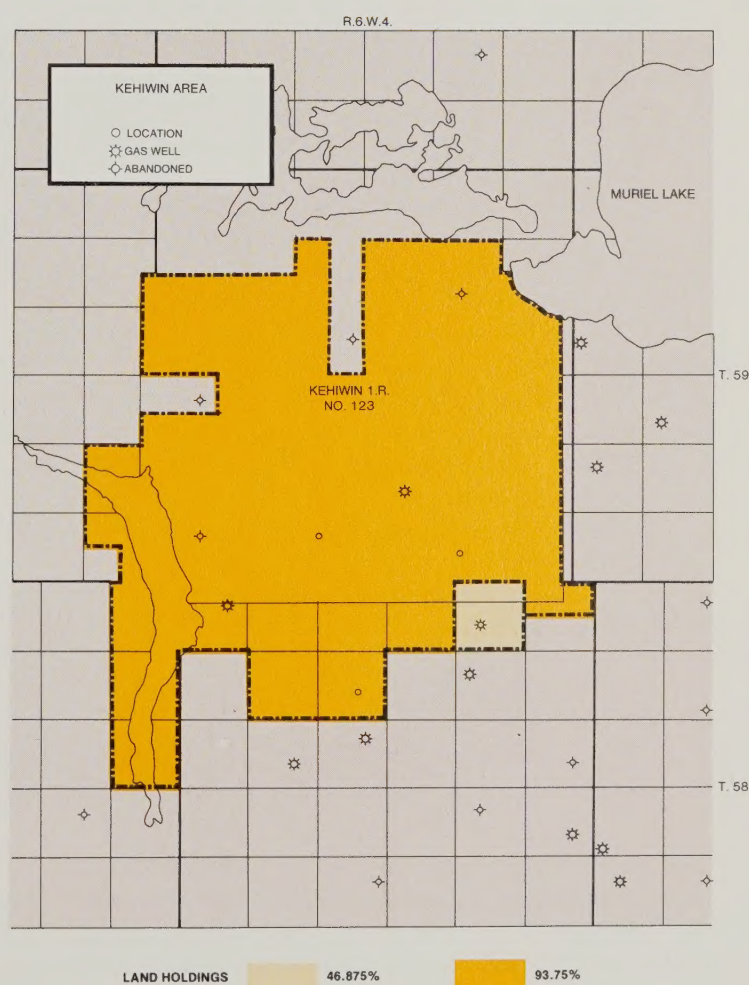
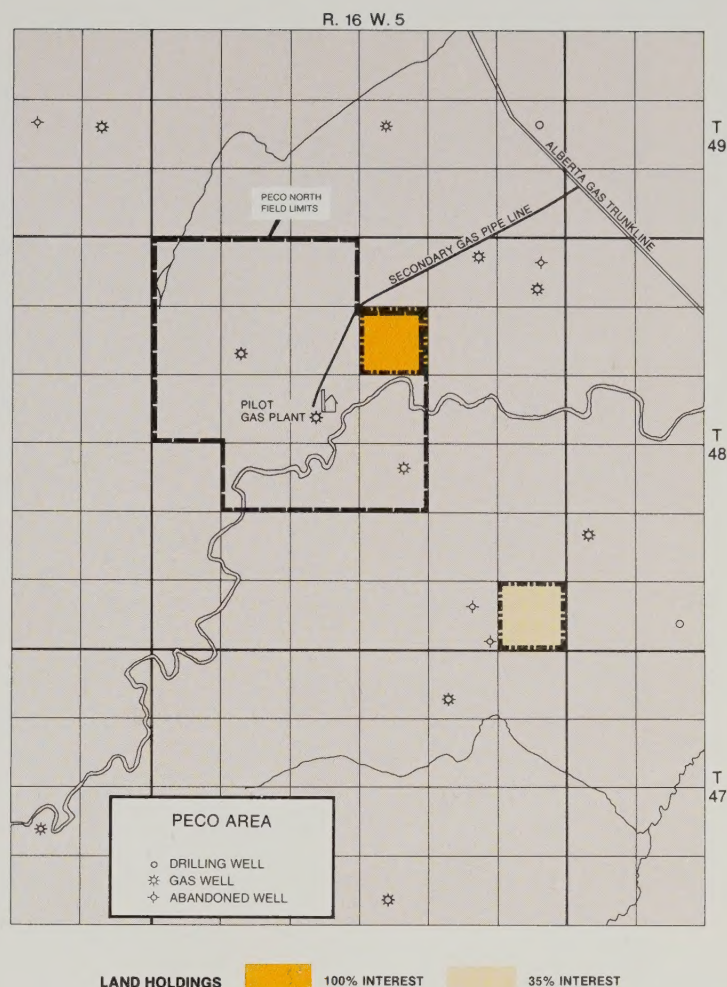
Activity in the 33,600 acre Hawkins Gas Unit, in which the Company holds a 16.88% interest, comprised the drilling of two infill wells, re-entry of two previously abandoned gas wells and purchase of one well not acquired at time of unitization. Total production from the Unit in 1975 averaged 7,856 Mcf from thirteen wells. Additional drilling will be required in 1976 to maintain the contracted delivery rate of 8,000 Mcf/D in the subsequent year.

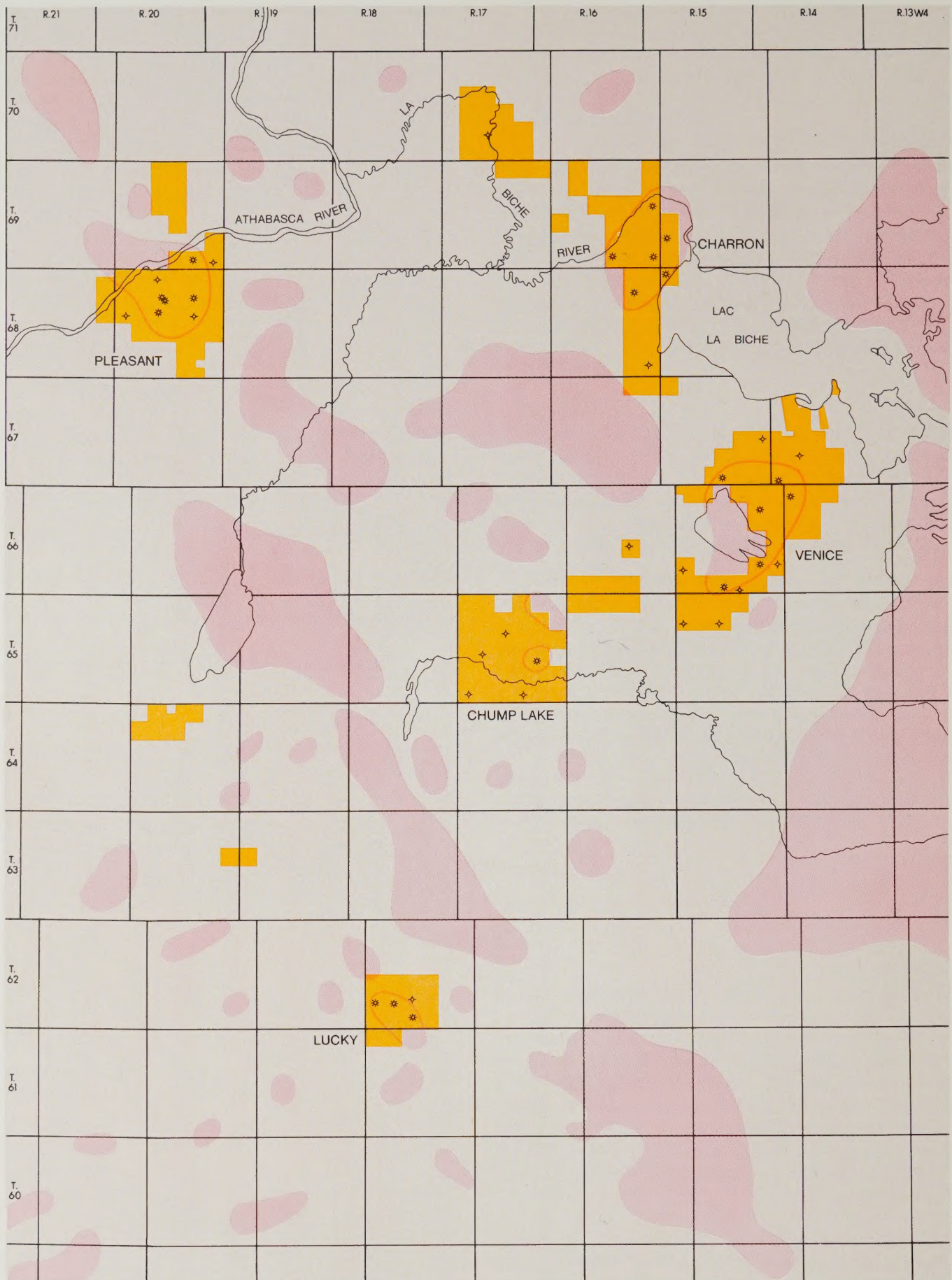


Kehiwin

The Company expanded its landholdings on the project by the acquisition of 2,437 acres of Federal Indian Reserve oil and gas leases. A joint development well was drilled on pooled lands with another company and encountered two gas productive sands. Three wells were staked late in the year on Company lands but rig shortages forced postponement of drilling until this summer. Please refer to the adjoining map for information as to the Company's acreage and well ownership on this project.

The time when gas sales will commence is uncertain. One prospective export buyer with interests in the area has been unable to obtain a Provincial export permit. Other buyers have deferred consideration until construction of a major export transmission pipeline into the general region, presently expected in mid-summer of 1976. Therefore, it is likely gas sales will begin sometime in 1977.

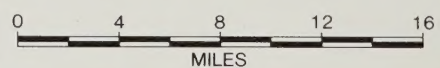




⊗ ABANDONED
 ⚙ GAS WELL

EAST CENTRAL ALBERTA

COMPANY'S LAND AND WELLS
 WITH RESPECT TO GAS POOLS.



LANDHOLDINGS

A comparison of landholdings at December 31, 1975 with that of one year earlier is presented below. Of the working interest lands, 1,170,922 acres (net 373,369) are situated in Alberta.

Surrender of Newfoundland offshore lands represents almost all of the reduction in royalty interest properties. This year a further drop will be experienced by the release of 532,118 acres on Banks Island.

Working Interest

P&NG Leases	
NG Leases & Licenses	
Permits & Reservations	

Sub-Total

Royalty Interests

GRAND TOTAL

1975		1974	
Gross	Net	Gross	Net
(acres)		(acres)	
311,358	109,236	233,349	95,115
85,451	17,791	68,414	18,108
976,498	319,594	966,619	350,709
1,373,307	446,621	1,286,382	463,932
657,754	-	2,266,585	-
2,031,061	446,621	3,552,967	463,932

PRODUCTION

(before deduction of royalties)

At December 31, 1975, the Company held interests in 226 (net 32.3) oil and 136 (net 19.3) gas wells situated in forty-three producing areas of Alberta and Saskatchewan. These include 62 (net 12.0) gas wells in Alberta not yet on production. During the next two years almost all of this shut-in capacity should be on stream.

A comparison of the Company's daily average gross share of oil and gas production by provinces follows:

	1975		1974	
	OIL (b/d)	GAS (Mcf/D)	OIL (b/d)	GAS (Mcf/D)
	1975		1974	
	OIL (b/d)	GAS (Mcf/D)	OIL (b/d)	GAS (Mcf/D)
Alberta	33	2,900	29	2,570
Saskatchewan	340	1,695	388	1,855
TOTAL:	373	4,595	417	4,425

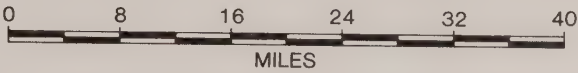
Early in 1975 the poor economics of the Company's Saskatchewan oil properties was a matter of great concern. During the year, imaginative and meaningful production incentives were implemented by the Saskatchewan government. The combination of improved operational efficiencies and these measures reversed the alarming trend to zero returns which commenced in 1974. As a result Saskatchewan properties contributed \$334,095 to cash flow in 1975 versus \$17,821 in 1974. This revenue stream, however, continued to bear a disproportionately higher share of deferred income tax liabilities due to non-deductibility of Crown royalties. In 1976, new Federal tax measures become effective which will greatly improve the after tax returns from these properties.

RESERVES

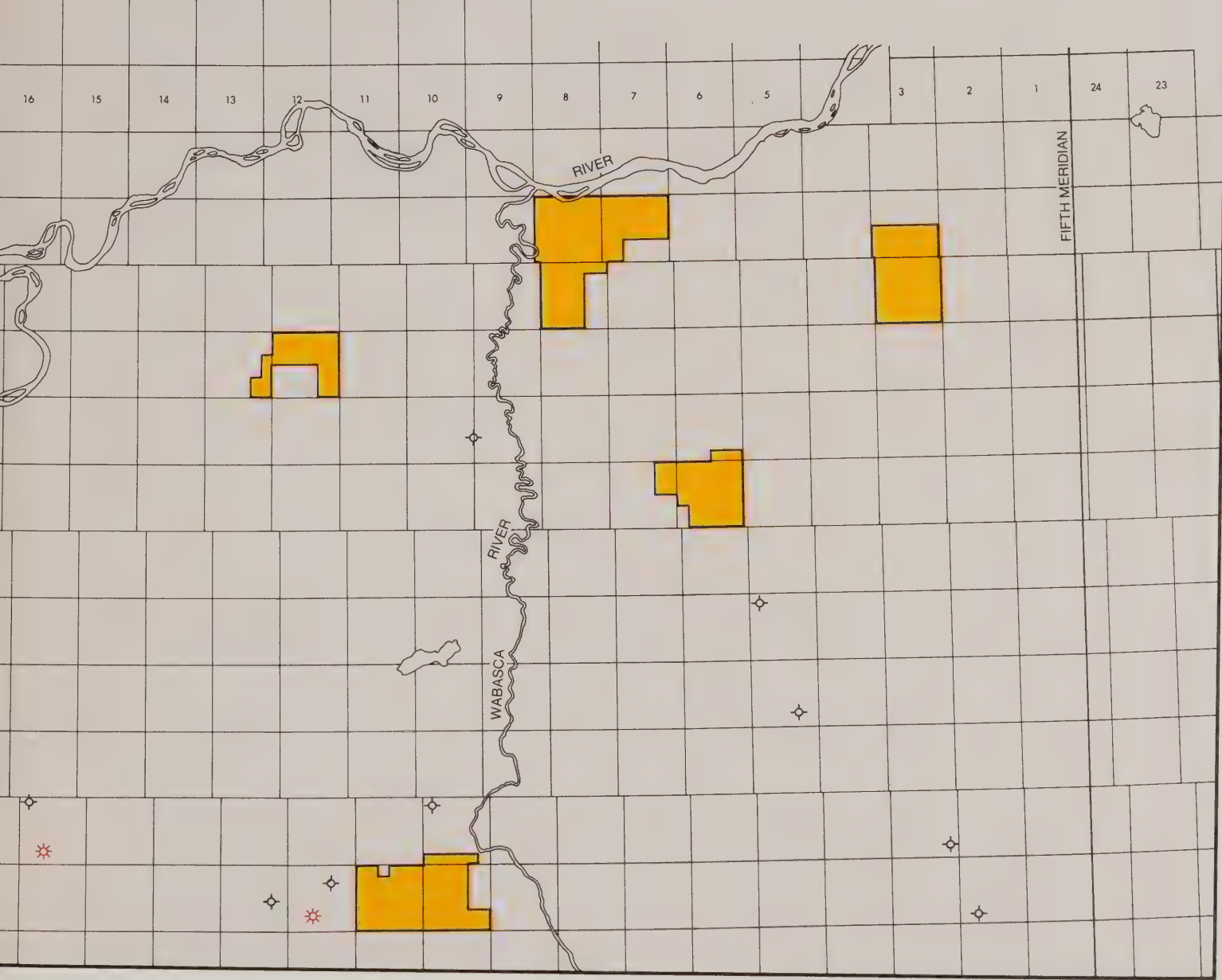
The Company and its program participants engaged Sproule Associates Limited, independent geological and engineering consultants, to prepare an evaluation of the Company's oil and gas properties as

NORTH WEST ALBERTA

COMPANY'S LAND WITH RESPECT TO WELLS DRILLED
SINCE 1973. DATA AS OF MARCH 31, 1976.



- * GAS WELL
- ◇ ABANDONED



of January 1, 1976. The results obtained are presented in summary below with reserves stated being the Company's gross shares before deduction of royalties.

expired March 31, 1976. In 1976, 91,441-2/3 shares were issued through exercise of warrants yielding \$205,743.75 to the treasury.

Because of its surplus exploration and development expenditures write off position, the Company does not yet pay income taxes. However, the practice of calculating a deferred tax liability as a charge against current profits is followed. Set forth below is the income tax reconciliation summary of 1975.

	<u>January 1, 1976</u> <u>(Sproule Estimates)</u>
PROVEN	
Oil (Bbls.)	1,168,700
N.G. Liquids (Bbls.)	402,800
Natural Gas (Mcf)	56,034,000
PROBABLE ADDITIONAL	
Oil (Bbls.)	-
N.G. Liquids (Bbls.)	67,000
Natural Gas (Mcf)	7,665,000
TOTALS	
Oil (Bbls.)	1,168,700
N.G. Liquids (Bbls.)	469,800
Natural Gas (Mcf)	63,699,000

FINANCIAL

The Balance Sheet as at December 31, 1975 together with the Statements of Earnings and Retained Earnings, and Changes in Financial Position, and the Auditors Notes and Report thereon are presented with this report.

The share purchase warrants originally issued by the Company's predecessor, Puma Petroleums Ltd.,

	<u>INCOME TAX EFFECT ON EARNINGS BEFORE TAXES</u>	<u>PERCENTAGE OF EARNINGS BEFORE TAXES</u>
Computed "expected" tax expense (recovery)	\$243,114	50.0%
Depletion allowed on Canadian oil and gas income	(100,339)	(20.6%)
Disallowed provincial royalties, mineral taxes, surcharges less provincial income tax refunds and credits	106,618	21.9%
Federal income tax abatements on Canadian oil and gas income and for provincial taxes less provincial income taxes and federal surtaxes	(61,147)	(12.6%)
Other	(3,246)	(.6%)
ACTUAL TAX EXPENSE:	<u>\$185,000</u>	<u>38.1%</u>

AUDITORS' REPORT

To the Shareholders of
Pennant-Puma Oils Ltd.

We have examined the balance sheet of Pennant-Puma Oils Ltd. as at December 31, 1975 and the statements of earnings and retained earnings (deficit) and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the Company as at December 31, 1975 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
February 27, 1976

THORNE RIDDELL & CO.
Chartered Accountants

PENNANT-PUMA OILS LTD.

STATEMENT OF EARNINGS AND RETAINED EARNINGS (DEFICIT)

YEAR ENDED DECEMBER 31, 1975

	1975	1974
REVENUE		
Oil and gas sales	\$1,112,328	\$ 719,164
Management fees (Note 5)	97,500	97,500
Other	19,343	40,849
	<u>1,229,171</u>	<u>857,513</u>
EXPENSES		
Operating	338,736	471,847
General and administrative	144,854	122,915
Interest	22,904	42,154
Depletion and depreciation	236,449	242,387
	<u>742,943</u>	<u>879,303</u>
Earnings (loss) before income taxes and extraordinary item	<u>486,228</u>	<u>(21,790)</u>
PROVISION FOR INCOME TAXES		
Deferred income taxes	234,000	62,300
Alberta royalty tax reductions	(49,000)	(12,400)
	<u>185,000</u>	<u>49,900</u>
Earnings (loss) before extraordinary item	301,228	(71,690)
EXTRAORDINARY ITEM		
Gain (loss) on sale of investments, net of applicable deferred income taxes, 1975 — Nil; 1974 — \$22,200	<u>(70,565)</u>	<u>63,228</u>
NET EARNINGS (LOSS)	230,663	(8,462)
Deficit at beginning of year	(36,223)	(27,761)
RETAINED EARNINGS (DEFICIT) AT END OF YEAR	<u><u>\$ 194,440</u></u>	<u><u>\$ (36,223)</u></u>
EARNINGS (LOSS) PER SHARE (based on the weighted average number of shares outstanding during the year)		
Earnings (loss) before extraordinary item	\$.13	\$ (.031)
Extraordinary item	(.03)	.027
Net earnings (loss)	<u><u>\$.10</u></u>	<u><u>\$ (.004)</u></u>

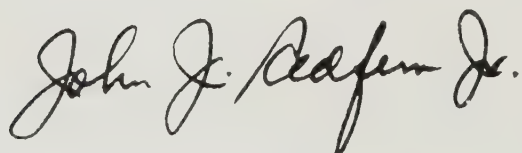
PENNANT-PUMA OILS LTD.

BALANCE SHEET as at December 31, 1975

ASSETS

	1975	1974
CURRENT ASSETS		
Cash and term deposits	\$ 152,556	\$ 100,033
Accounts receivable — trade	351,931	249,802
— Pennant Venture (Note 5)	417,810	174,764
— other	94,308	12,400
	<u>1,016,605</u>	<u>536,999</u>
INVESTMENTS		
Shares, at cost	—	295,792
Notes receivable (Note 2)	228,527	212,752
	<u>228,527</u>	<u>508,544</u>
FIXED ASSETS (Notes 1, 3 and 5)		
Petroleum and natural gas rights, together with exploration, development and equipment thereon, at cost	5,346,714	4,762,386
Accumulated depletion and depreciation	1,106,560	878,668
	<u>4,240,154</u>	<u>3,883,718</u>
Other equipment, at cost less accumulated depreciation of \$26,515 (1974 — \$23,076)	22,714	30,028
	<u>4,262,868</u>	<u>3,913,746</u>
OTHER ASSETS	<u>53,864</u>	<u>52,183</u>

Approved by the Board:

 Director

 Director

\$5,561,864

\$5,011,472

LIABILITIES

	1975	1974
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 506,385	\$ 328,929
Due to Pennant Venture	—	115,000
	<u>506,385</u>	<u>443,929</u>
BANK PRODUCTION LOANS (Note 3)	131,803	140,568
DEFERRED INCOME TAXES (Note 1)	<u>332,900</u>	<u>98,900</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK (Note 4)		
Authorized		
5,000,000 common shares of no par value		
Issued		
2,329,359 (1974 — 2,314,609) shares	4,382,870	4,350,832
CONTRIBUTED SURPLUS	13,466	13,466
RETAINED EARNINGS (DEFICIT) (Note 7)	194,440	(36,223)
	<u>4,590,776</u>	<u>4,328,075</u>
	<u>\$5,561,864</u>	<u>\$5,011,472</u>

STATEMENT OF CHANGES IN FINANCIAL POSITION

Year Ended December 31, 1975

	1975	1974
FUNDS PROVIDED FROM		
Operations		
Earnings (loss) before extraordinary item	\$ 301,228	\$ (71,690)
Charges not requiring funds		
Depreciation and depletion	236,449	242,387
Deferred income taxes	234,000	62,300
	<u>771,677</u>	<u>232,997</u>
Issue of shares for cash and		
promissory notes	32,038	29,985
Sale of fixed assets	103,036	24,622
Sale of investment —		
Berry-Wiggins & Co. Limited.	225,227	218,148
	<u>1,131,978</u>	<u>505,752</u>
FUNDS APPLIED TO		
Fixed asset additions	688,249	617,593
Bank production loans	8,765	283,890
Notes receivable, net	15,775	29,835
Other	2,039	7,148
	<u>714,828</u>	<u>938,466</u>
INCREASE (DECREASE) IN WORKING CAPITAL	417,150	(432,714)
Working capital at beginning of year	<u>93,070</u>	<u>525,784</u>
WORKING CAPITAL AT END OF YEAR	<u>\$ 510,220</u>	<u>\$ 93,070</u>

NOTES TO FINANCIAL STATEMENTS

Year Ended December 31, 1975

1. ACCOUNTING POLICIES

Petroleum and Natural Gas Properties

The Company follows the full cost method of accounting whereby all costs of exploring for and developing oil, gas and related reserves are capitalized. Such costs include property acquisition costs, costs incurred in connection with the Company's participation in the Pennant Venture (see Note 5), geological and geophysical expense, carrying charges and non-producing property, costs of drilling both productive and non-productive wells and overhead expense related to exploration activities. These costs are amortized using the unit of production method based on estimated proven developed reserves as determined by Company engineers.

Depreciation

Depreciation is provided on production equipment and related facilities using the unit of production method based on estimated proven developed reserves as determined by Company engineers. Other equipment is being depreciated on a straight-line method at rates which are estimated to amortize the cost of the assets over their useful lives.

Income Taxes

The Company follows the tax allocation method of accounting under which the income tax provision is based on the earnings reported in its accounts. Under this method the Company provides for deferred income taxes to the extent that income taxes otherwise payable are eliminated by claiming exploration and development costs and capital cost allowance in excess of the related depletion and depreciation provisions reflected in its accounts.

2. NOTES RECEIVABLE

	1975	1974
4½% share purchase notes	\$166,351	\$166,351
Non-interest bearing share purchase notes	45,610	29,835
4½% other notes	16,566	16,566
	<u>\$228,527</u>	<u>\$212,752</u>

The 4½% share purchase notes are due from officers in the amount of \$129,925 and from employees in the amount of \$36,426 and are secured by 77,617 shares of the Company.

The non-interest bearing notes are due from officers in the amount of \$14,810 and from employees in the amount of \$30,800 and are secured by 28,450 shares of the Company.

Included in the 4½% other notes receivable is an amount of \$9,940 due from a private company wholly-owned by an officer of the Company.

Share purchase notes are repayable in varying instalments to 1988 (see Note 4). Instalments due January 1, 1975 of \$16,603 and January 1, 1976 of \$16,689 have been deferred at the discretion of The Executive Committee of the Board of Directors.

3. BANK PRODUCTION LOANS

Bank production loans of \$131,802 are secured by an assignment of accounts receivable and an assignment under Section 82 of the Bank Act of Canada relating to the Company's petroleum and natural gas leases and rights and are evidenced by promissory notes payable on demand. The loans are repayable from future oil and gas production and accordingly no portion of the loans have been included in current liabilities.

4. CAPITAL STOCK

a) Capital stock transactions for the year were as follows:

	Numbers of Shares	Book Value
Balance, January 1, 1975	2,314,609	\$4,350,832
Issued for cash and promissory notes on exercise of employee stock options	7,500	16,875
Issued for promissory notes on exercise of Employee Stock Purchase Incentive Plan	7,250	15,163
Balance, December 31, 1975	<u>2,329,359</u>	<u>\$4,382,870</u>

b) The Company has reserved 99,750 unissued common shares for the conversion of 299,250 share purchase warrants issued and outstanding at December 31, 1975. The warrants expire on March 31, 1976 and entitle the holder to purchase one common share of the Company's capital for each three warrants held, at a price of \$2.25 per share.

An additional 76,550 unissued common shares are reserved under the Employee Stock Purchase Incentive Plan. The Plan permits employees, with approval, to purchase from treasury common shares of the Company at not less than market price, up to a maximum of 20% of their annual salary and provides financing by way of interest free loans from the Company.

Changes in the number of shares reserved for employees stock options during the year ended December 31, 1975 were as follows:

Outstanding, January 1, 1975	22,500
Options granted	2,000
Options exercised	(7,500)
Options cancelled	<u>(11,250)</u>
Outstanding, December 31, 1975	<u>5,750</u>

These options are exercisable in annual instalments from October, 1976 through December, 1980 at prices ranging from \$2.25 to \$2.85 per share.

5. PENNANT VENTURE

The Company acts as the manager of an exploration partnership (Venture) operating in Canada in which it is a 35% participant (see Note 6) and accordingly is required to contribute 35% of the expenditures incurred. The Venture terminates on December 31, 1976, however it may be continued on a year-to-year basis by unanimous agreement of the partners.

6. CONTINGENT LIABILITIES

The Company is contingently liable in the amount of \$1,199,000 relating to bank financing arrangements of the Pennant Venture and a joint acquisition program. In the event the Company becomes subject to such liabilities, its rights of recourse include the right to obtain ownership of the petroleum and natural gas leases and rights now securing the financial arrangements.

7. DIVIDEND RESTRICTION

The Company is subject to the regulations of the Canadian Federal Anti-Inflation Act which provides for the restraint of dividends in Canada during the first compliance period from October 14, 1975 to October 13, 1976. Under the legislation, payment of dividends by the Company during this period are subject to the prior approval of the regulatory body.

8. REMUNERATION OF DIRECTORS AND OFFICERS

During 1975, the Company paid remuneration of \$4,000 to its eight directors in their capacity as directors. Senior officers as defined by the Alberta Securities Act received \$128,518. One of the officers is also a director.

DIRECTORS

* +	GLENN S. BRANT, P. Eng.	Calgary, Alberta
	JOHN J. CHRISTMANN	Lubbock, Texas
+	ARDEN R. GROVER	Midland, Texas
* +	CHARLES L. McALPINE	Toronto, Ontario
*	JOHN J. REDFERN, JR.	Midland, Texas
	JOHN J. REDFERN, III	Midland, Texas
	NATHAN L. SANDLER	Toronto, Ontario
	J. RONALD WOODS	Toronto, Ontario

* MEMBER EXECUTIVE COMMITTEE

+ MEMBER AUDIT COMMITTEE

OFFICERS

CHAIRMAN OF THE BOARD	JOHN J. REDFERN, JR.
PRESIDENT & GENERAL MANAGER	GLENN S. BRANT, P.Eng.
VICE PRESIDENT	JOHN J. CHRISTMANN
SECRETARY	JOHN J. REDFERN, III
ASSISTANT SECRETARIES	KENNETH M. BAHER, P. Eng.
	DAVID J. DUNCAN, P.Geol.
	JOHN E. THOMPSON, R.I.A.
	ROBERT J. IVERACH

KEY OPERATING PERSONNEL

PRESIDENT & GENERAL MANAGER	GLENN S. BRANT, P.Eng.
CHIEF GEOLOGIST	DAVID J. DUNCAN, P.Geol.
CHIEF ENGINEER	KENNETH M. BAHER, P.Eng.
CHIEF ACCOUNTANT	JOHN E. THOMPSON, R.I.A.

STOCK EXCHANGE LISTING

Toronto

REGISTRAR AND TRANSFER AGENT

Canada Permanent Trust
Calgary, Montreal, Toronto, Vancouver

AUDITORS

Thorne, Riddell & Co., Calgary, Alberta

